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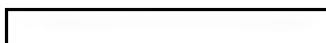
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ISRAEL-FEDAYEEN-LEBANON

Israeli Prime Minister Rabin yesterday publicly hinted that Israel has modified its tactic of launching reprisals for every fedayeen cross-border raid from Lebanon. Rabin told reporters in Tel Aviv that Israelis should not expect blow-for-blow counterstrikes, but instead should prepare for a long, drawn-out war against the Arab guerrillas.

Rabin has been under considerable foreign pressure to show more restraint in the face of the Palestinian commando raids from Lebanon. His press statement seems designed to alert the Israeli public to this change in tactics and dampen popular expectations that the government will exact direct retribution for the fedayeen raid against Nahariya on June 25.

Israel, however, clearly intends to retain its option of conducting retaliatory strikes on fedayeen bases in Lebanon. Deputy Prime Minister Allon last week said that such Israeli raids are part of a considered government policy to throw the terrorists off balance, not a public relations operation to assuage Israeli domestic opinion or simply a reply in kind for fedayeen attacks. The new restraint shown by the politically fragile Rabin government may well crumble if terrorists raids into Israel are continued, spurring renewed public clamor for immediate retaliation.

Meanwhile, the Lebanese government is exploring various options for discouraging fedayeen raids from Lebanon and defending against Israeli retaliatory strikes. Although the government remains unwilling and unable to impose controls on fedayeen movements in southern Lebanon, high officials--including President Franjiyah--have recently met with guerrilla leaders in attempts to elicit pledges that they will restrict their terrorist activities. According to press reports, Prime Minister Sulh is encouraged by a readiness on the part of the commandos to work out "solutions in order to avoid further losses

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in lives and property." Any understandings the government might reach with the relatively moderate leaders of the major fedayeen groups, however, would fail to influence the behavior of the radicals.

The Lebanese, partly to demonstrate to the Arab world that they are doing something about the Israeli attacks, will appeal for wide Arab support at a meeting of the Arab League Defense Council on July 1 in Cairo. Lebanese officials have publicly called on the other Arabs to provide them with antiaircraft weapons, including ground-to-air missiles.

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Lebanon's leaders remain apprehensive about Syrian Baath Party intentions toward Lebanon.

Government spokesmen have not confirmed press reports that Lebanon will also ask the Arab oil producers to use the oil weapon against the US as a means of forcing Washington to exert pressure on the Israelis to abstain from attacking Lebanon. Discussion of this possibility may arise as part of the rhetoric of the Cairo meeting, but Lebanon probably would not seriously propose such a step at this time. Beirut values highly its good relations with Washington and would be aware that the more important Arab states, notably Egypt and Saudi Arabia, almost certainly do not now regard the Lebanon-fedayeen-Israel problem as sufficiently severe to warrant so drastic a step.

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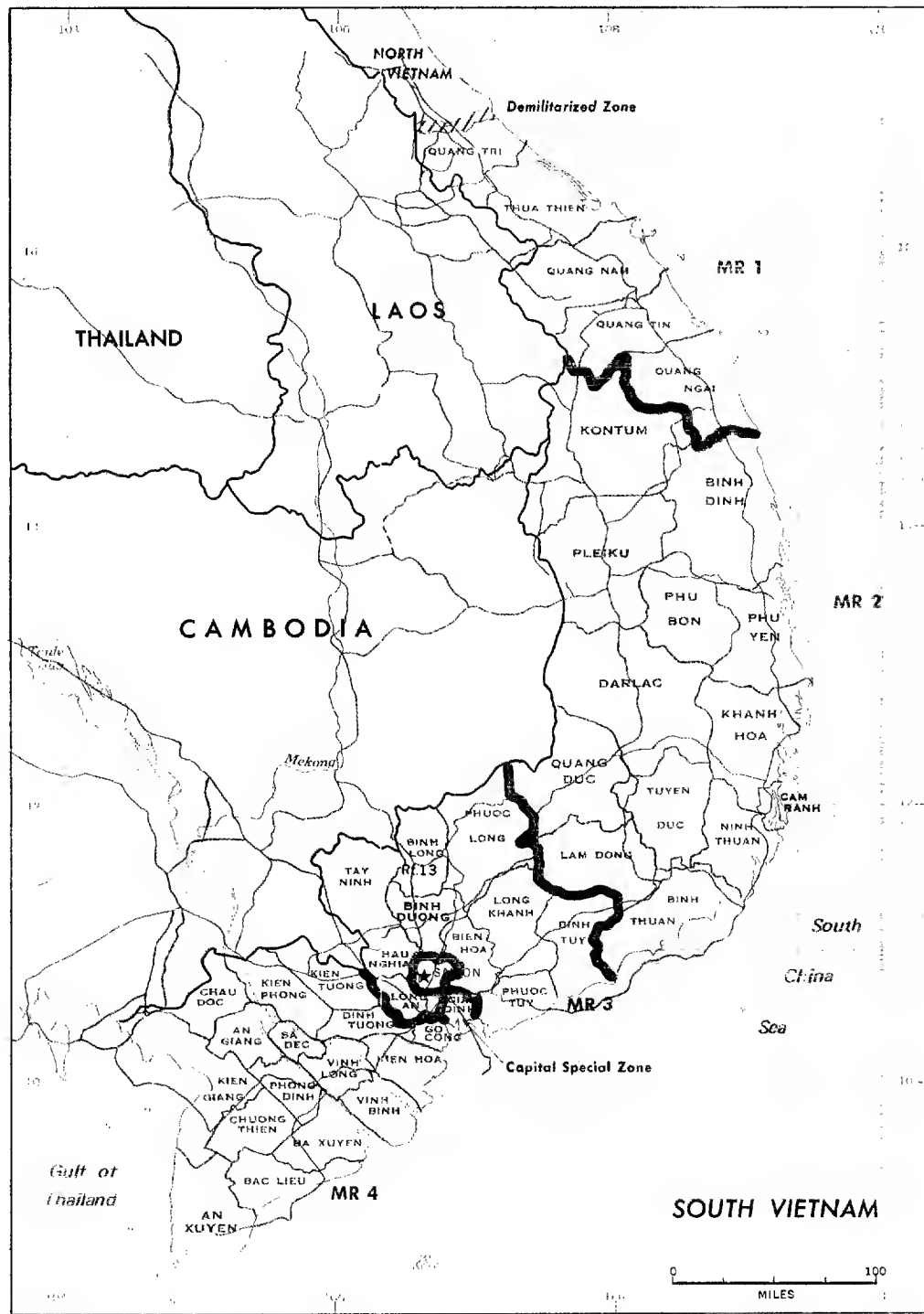
KOREA

Both Pyongyang and Seoul are acting with restraint after Thursday night's naval incident that resulted in the sinking of a South Korean police boat by North Korean patrol craft.

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The circumstances surrounding the incident, which occurred off the Korean east coast, are not clear. The South Korean ship evidently ventured north of the Northern Limit Line, the seaward extension of the demilitarized zone, because of a navigational error. Seven of the 30-odd man South Korean crew were captured; the remaining crew members are unaccounted for and presumably dead.

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SOUTH VIETNAM

Well-entrenched North Vietnamese forces are stubbornly resisting the renewed South Vietnamese drive to recapture the two outposts in Binh Duong Province north of Saigon, which the Communists took last month. Since the drive was resumed on June 27, government losses include more than 70 men killed or wounded and 12 armored vehicles destroyed or badly damaged. These losses are due to heavy Communist artillery fire, some of which is from the Communists' large caliber guns.

Despite the initial setback, senior South Vietnamese officers in Military Region 3 still maintain that the outposts will be retaken soon. It is apparent that the Communists will not give up their holdings easily.

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GREECE-TURKEY

Turkish Prime Minister Ecevit expressed regret before leaving Brussels on June 27 over Greece's rejection of Turkish proposals to negotiate the Aegean seabed dispute. The meeting in NATO Secretary General Luns' office was the first between Greek and Turkish premiers since 1967.

[REDACTED]

The Greek foreign ministry has indicated that it favors a cooling off period before any high-level meetings and that present diplomatic channels are adequate to resolve the dispute. More substantive talks are to be held between the Greek and Turkish delegations to the Law of the Seas Conference in Caracas, which will end on July 29.

Ecevit's statement after meeting with Greek Prime Minister Androutsopoulos stressed that the Greek rejection of negotiations would force Turkey to use all its lawful rights in the Aegean seabed dispute. These rights would presumably include continued oil exploration off the Turkish mainland and the right to a continental shelf. Implicit in this Turkish position would be a rejection of the proposed Greek extension of their territorial waters to 12 miles.

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NATO

West German Defense Minister Leber is deeply concerned about the immediate prospects for NATO defenses.

The US embassy in Bonn believes that Leber reflects the growing belief of German defense officials that Western Europe's economic problems, governmental instability, and decreasing public support for defense may lead to an irreversible decline in the area's defenses. Leber probably suspects that the other Allies would like to shift a large share of the defense burden to Bonn, and he knows that there is a political limit to what the West German public will accept.

Leber's worries were deepened by the recent Dutch defense plan and Britain's still incomplete review of defense spending. He thinks that heavy Dutch cuts have been held off for the time being. NATO's Defense Planning Committee this week sent The Hague two strong messages emphasizing the potentially adverse effect on the Alliance of the Dutch defense plan. Leber believes, however, that the British will probably cut their forces in Germany, with "disastrous" consequences for the Alliance.

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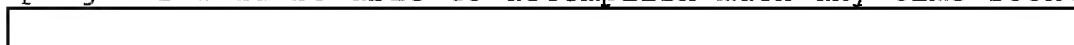
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Defense Minister Leber is pessimistic about the prospect for greater European defense cooperation. The US embassy in Bonn thinks he has far less hope now than when he took over the defense ministry that Eurogroup programs will be able to accomplish much any time soon.

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EC - ARAB STATES

The EC Nine are moving ahead with plans for wide-ranging cooperation with the Arab states. The French, who take over the EC presidency from the West Germans on July 1 for the next six months, will be taking the lead, spurred by optimistic assessments of Arab interest.

In accordance with a decision of the Nine earlier this month, a three-man delegation visited Cairo last week to present the Nine's views on the proposed dialogue with the Arab states, which may begin in late July.

In a memorandum presented to the Arabs, the Nine:

- affirm the importance of the Arab wish expressed last December for EC-Arab cooperation in all fields;

- express hope for mutually beneficial cooperation in such fields as industry, agriculture, transport, science, and finance;

- propose a meeting between their own president and representatives the Arab governments may appoint;

- affirm readiness for European and Arab experts then to undertake without delay the study of ways and means of cooperation.

The French expect that several Arab states--probably Egypt, Algeria, and Saudi Arabia--will be designated to send foreign ministers to Paris to initiate the dialogue with the EC presidency. They believe these representatives will be chosen during the meeting on July 12-13 of the 11-member Arab foreign ministers' committee, established to study EC-Arab cooperation. If the committee members give the go-ahead, the meeting could take place in late July.

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Even the most optimistic observers doubt that joint study commissions could begin serious work before the end of Ramadan in late October. In any case, the Dutch insist that the Arab embargo against the Netherlands should be lifted first.

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The Arab League bureaucracy, at least, is showing considerable interest in the prospective dialogue.

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Arab leaders, however, have given few indications of interest in moving ahead quickly on the kind of broad-scale dialogue being promoted by the Europeans, and many continue to prefer bilateral negotiations in which individual national interests can be advanced without the necessity for political coordination. In any case, they are likely to try to exploit European eagerness for Arab political purposes.

Tunisian Foreign Minister Chatti stressed the political aspects of the dialogue. After a recent meeting with the French foreign minister, Chatti told the press that "it is not a question for us of a simple dialogue between petroleum suppliers and factory sellers...." He implied that the Arabs would expect the Europeans to lean more to the Arab side on Middle East questions. The French, on the other hand, are avowedly playing down the political aspects of the dialogue.

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ETHIOPIA

An attempt by eight parliamentarians on Wednesday to force the release of 25 cabinet ministers arrested by the army in April has provoked a strong reaction. The military announced over radio and television yesterday that it is prepared to take action if the parliamentarians are not punished for their "inadmissible" request.

The military probably views the request as one more attempt by conservative elements within the government to reassert their authority. In recent weeks, the conservatives have considerably increased their influence over the cabinet of Prime Minister Endalkatchew. The armed forces apparently decided the time had come to remind the government of their power.

The presentation of the petition triggered a stormy debate in parliament and resulted in a vote of censure against seven of the eight signers. The vote apparently was not enough to satisfy the military.

The incident has given rise to rumors in Addis Ababa of an imminent military coup. No unusual military activity has been noted; the armed forces probably are still reluctant to establish a military regime.

The slow progress by the commission set up earlier this month to investigate corruption charges against members of the previous government has become a major source of friction between the government and the military. [REDACTED]

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Venezuela-China: The Perez administration has established diplomatic relations with the People's Republic of China, recognizing it as the sole legal government of China and taking note of the Chinese position that Taiwan is an inalienable part of the People's Republic of China. In the official communiqué released yesterday, the two governments agreed to exchange ambassadors within a short time. Venezuela is the eighth Latin American country with which China has established relations--a number likely to increase in coming months.

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